Your Value Proposition: The Foundation of Strategy

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Overview

It seems at times that an indirect auto financing source, whether it be a captive, bank or independent auto financing company, must continually justify its existence. If you can relate to this, then you know full well that the audience for this justification may include your parent company and shareholders, the investment community, your dealers, your customers and partners in the industry.

So how do you justify your existence? A key focus in answering this question should be placed on the value you bring to your customers – both your dealers (for wholesale and retail financing) and your customers (with whom you have an ongoing financial relationship in the form of a loan or lease). Understanding and improving upon these relationships is a never-ending process with no finish line and no “perfect” answer.

This analysis focuses on your value proposition as an indirect auto financing source. It also provides insight into the benefit of regularly evaluating the value you provide to your parent company and the contribution you make to the industry.

Your Value Proposition: Dealers

In order to properly evaluate the value proposition you provide to your dealers, it is crucial to understand the strength and quality of your dealer relationships. The strength and quality of your dealer relationships depend equally on many factors. Those factors include the duration, consistency and support (both in the financing you provide for the dealership and the financing you make available to its customers) that demonstrate your desire and ability to meet your dealer’s business needs. Equally important, however, are the frequency, nature and quality of your dealer communications. Your communications should be regular, timely, clear and pertinent. Important messages should be delivered and crucial issues should be resolved personally. Daily business needs should be met with the same tone and urgency regardless of what part of your organization they originate from or what issue they attempt to address.

Your evaluation may begin with the simple question, “How well do I know my dealers and how well do they know me?” Your knowledge of your dealers begins with demographic characteristics that you already know. These include geography, dealer size, customer traffic and the dealer’s status as an independent, multi-franchise or mega-dealer. You also know the financing penetration and wholesale relationship you maintain with the dealer and that which the dealer maintains with your competitors. Captives often identify key dealers from the perspective of their manufacturing partner or parent company who base this status on sales, advisory board memberships or special program participation. Banks may identify key dealers based on their use of other products and services offered by the bank such as investments, personal financing and employee services.

To remain competitive, you must take the analysis to the next level by analyzing how well you truly meet your dealer’s business needs. This analysis
begins by determining the answers to the following questions:

- What are your dealers looking for in a financing partner?
- What do your dealers believe you have to offer them?
- What do your dealers believe your competitors have to offer them?
- What are the gaps between your dealers’ desires, your offerings and those of your competitors?
- Which of the dealers’ perceptions are not in line with your reality?

Knowledge of the key reasons your dealers work with you and the reasons they work with your competitors provides key insights into the strength and quality of your relationships and a good starting point for understanding and clarifying your value proposition. Dealers most often choose auto financing sources based on rates, consistency, buying depth and advance policies. These are important considerations that have an impact on the daily operations of the dealers’ Finance & Insurance (F&I) departments. However, there are other reasons dealers choose auto financing sources on a consistent basis and as long-term partners.

Dealers and dealer principals determine the value of competing auto financing sources by how well these sources help them accomplish their goals of selling more vehicles and increasing profitability. Some dealers look to partners to help streamline business processes and gain a competitive edge. This operational improvement may include support with legal and regulatory compliance requirements. Other dealers look to partners to help them strengthen or build customer satisfaction and retention.

Dealers and dealer principals also determine the value of competing finance sources by the competitiveness and the robustness of the products and services they provide. You may offer a full range of products in the wholesale and retail arenas in addition to business and personal banking tools. In contrast, you may focus on offering a specific subset of these. Regardless of the specific products and services you offer, your competitiveness and robustness will also be measured in the successful development, implementation and delivery of these products and services.

BenchMark has also observed that offering preferred dealer programs has an impact on dealer satisfaction. Also, the partnerships you may have formed with other financing sources (to offer additional products like non-prime financing) will be viewed by dealers as a positive expansion of your own offerings in an attempt to better meet their needs.

Dealers also judge your value proposition by the structure and application of your policies and procedures. While these tools are designed to help you maintain profitability, your ability to be consistent yet flexible is among the most visible factors on which you are graded by your dealers. You should be vigilant in your continued evaluation of your performance and competitiveness in this regard. In addition, you should be especially diligent to ensure that changes are meaningful, realistic and consistent throughout your organization and that they are clearly communicated.

Another key factor in the dealers’ assessment of your value proposition is the effectiveness of your sales force. The goals you have set for your sales force are visible to your dealers through the actions and behaviors of these individuals. The goals set by the auto financing source may include wholesale and retail penetration rates, product information dispersion and dealer audits. At the same time, your dealers may be expecting the sales staff to help ‘get deals bought’, follow-up on titles and obtain prospect lists. Dealers will continually assess the apparent harmony or disconnect between the sales force goals and the dealers’ business needs to ensure that the sales team is bringing value to the dealership. These goals must be continually reconciled in order to establish clear and appropriate expectations and provide the highest possible value to the dealers.

Dealers and auto financing sources alike tend to focus on processing of retail and lease applications and funding new business. However, the
strengths and weaknesses of your servicing are also very important. Many dealers maintain on-going relationships with their customers and will capitalize on their relationships with their financing sources by assisting customers with financing issues after the sale. In addition, dealers must also manage the dealership’s financing issues. In both cases, dealers are counting on consistency, flexibility and superior service from operational areas of your organization. Setting service standards for your post-funding operations further refines your value proposition by ensuring that these experiences for dealers are also successful.

All of these factors – your products and service offerings, your policies and procedures, the effectiveness of your sales force, your customer service levels – will impact dealer satisfaction and the value proposition your organization is believed to offer.

**Your Value Proposition: Customers**

Your value proposition to customers begins to be defined during the credit evaluation process that takes place between you and the dealer. Although the auto financing source rarely works directly with the customer during this process, time consumption and information requirements are very visible to end-customers and form the very powerful first impressions your customers have of your organization. Clear and timely communications between the auto financing source and the dealer are critical to establishing positive impressions and forming the basis for the future success of the customer relationship.

Your value proposition to customers continues in the servicing phase of customers’ loans and leases, during which time customers should continue to receive appropriate, informative and timely communications. Service teams should be clear, consistent, expedient and polite in responding to the customer needs, regardless of whether they pertain to titles, payments, payoffs, collections or any other question or request the customer may have. Efforts to satisfy customer needs should be positive and customer-focused while being mindful of policies and procedures.

BenchMark has observed a recent change in service standards brought about by a combination of higher customer expectations as well as improved customer service operations. The challenge to improve service standards is complicated by parallel efforts to reduce costs. Management must be diligent to balance achievement of objectives with superior service levels to offer a competitive value proposition.

**Your Value Proposition: Dealers and Customers - Evaluation & Refinement**

**Measuring Dealer and Customer Satisfaction**

Assessing the validity of your value proposition begins with attaining a clear understanding of your dealers’ and customers perceptions of your organization. This understanding takes place on two levels: first, the criteria the dealers value in selecting an automotive financing partner and second, the degree to which you are meeting these expectations. As discussed within this analysis, dealer satisfaction levels will be determined by the effectiveness of your product offerings, the information provided and reviewed with the dealer regarding profitability and growth opportunities, the effectiveness of your sales force and the effectiveness of your ongoing dealer and customer support. For customers, it will be your level of responsiveness to their needs in the application process and throughout the servicing of their loan or lease. Your performance must be continuously measured and can be measured both internally and through industry research and syndicated studies.

From an internal perspective, the best source of dealer and customer feedback is often overlooked. The personnel who have direct regular contact with dealers and customers should have a clear understanding of your value proposition and delivery strategies. In addition, these individuals will have the most pertinent information – through impressions and specific examples – of the value proposition your dealers and customers perceive you to offer them. These employees include sales representatives, buyers, discounters, collectors, dealer and customer service personnel and end-of-term representatives. Your communications between management and
contact personnel should be clear, frequent, regular and bi-directional.

In addition to syndicated studies of dealer satisfaction in the industry, auto financing sources should stay abreast of dealer needs through other avenues – as many as possible, appropriate and effective. Dealer Advisory Boards or functionally-focused councils (for example, F&I councils) are an important and effective source of information and feedback from representatives of the dealer community. Such councils should contain members that represent an appropriate sampling of the dealer body – large and small dealers, independent and mega-dealers, dealers from various geographical regions – to ensure the effectiveness of the information they provide. Councils should have specific methods of communicating with and soliciting information from additional members of the dealer body.

Within your organization, executive “town hall meetings” can also be very effective, if implemented with sincerity and with immediate feedback. However, the size of these groups directly impacts the quality and source of information received. Your use of venues like these should be regularly interspersed with smaller, more personal sessions to ensure thorough and consistent communications occur in both directions.

Customer satisfaction can be monitored through both internal and external efforts. Internally, customer service representatives have constant contact with your customer base and are aware of notable issues and concerns typically raised. Capturing and responding to this information is crucial to maintaining successful customer relations and improving the quality of services provided. Externally, syndicated studies are available in the industry that can provide important insight as to how well you are performing against your customers’ expectations as well as your competition. Both internal and external customer satisfaction monitoring allow you to set appropriate priorities for operational improvements.

**Measuring Product Availability; Policy and Procedure Competitiveness**

Products must be constantly evaluated against your profitability standards and against the offerings of your competitors. Dealer and customer satisfaction data from internal and external evaluations will be helpful. In addition, information can be obtained through ongoing industry research and market analysis. Your organization must make this study a standing regular priority. This can be achieved by participating in industry associations, networking with partners and vendors and studying other industries. These activities will increase your awareness of what constitutes “leading edge” products and services enabling you to deliver the value proposition for which your dealers and customers are looking.

**Industry Benchmarking**

Benchmarking against other auto financing sources’ products and processes allows you to better understand industry best practices. This understanding will reveal gaps between your organization and best practices. When combined within the core processes in which the dealer and customer are directly impacted, you can focus on improving key areas thus evaluating and improving your value proposition. As your value proposition is defined and refined through improvements resulting from benchmarking and internal evaluation, dealer and customer satisfaction levels should improve accordingly.

**Measuring Sales Force Effectiveness**

Understanding the effectiveness of your sales force is crucial to managing your business. You must understand the offering of your sales team in relation to that of your competitors.

Your attention should be directed to the following areas:

*Sales Structure – How is your sales organization structured to meet the needs of your dealers? How does this structure differ from that of your competitors? How big is your sales team? How many dealers does each person call on? Is there
an internal sales team? Does it support your outside sales or split the calling load?

**Sales Incentives** – What behaviors are encouraged? Discouraged? What is the preferred sales incentive? Has this changed the capture ratio?

**Sales Opportunities** – What is the career path of your sales staff? Is it easy for them to move to another opportunity? How strong is their loyalty to your organization and their department?

**Sales Excellence** – How do you attract sales force team members? What would it take to achieve greater levels of sales excellence?

**Sales Training** – Is training adequate? What additional training would be welcomed by the sales team? What training would the dealers like to see you offer your sales staff?

**Profitability** – Do your sales representatives have the ability to improve the profitability of the dealership?

**Sales Tools** – What tools and information are available for the sales staff? What else is needed?

**Sales Support from Corporate** – What level of support is given to the sales staff from your Corporate and local management? How does the sales team fit into the organizational and “power” structures?

Implementing a formal process to conduct this evaluation may be challenging. However, effective assessment of your dealer and customer value propositions and implementation of ongoing improvements requires this effort.

**Your Value Proposition: Your Company, Bank and Shareholders**

The question of the value you bring your parent company, bank or shareholders should be absolutely clear to you. Or is it? While your dealer and customer value proposition is of absolute importance, it is this value that you may feel most judged against on a monthly and quarterly view, if not more frequently. And, it is not uncommon for you to find that you must compete more furiously against other divisions within your company or bank than against your auto financing competitors.

The value you bring evolves with the competitive environment and the industry mergers and acquisitions. BenchMark has witnessed a few departures from the indirect auto financing industry along with a number of competitors who have expanded market share and presence over the last several years (see also The Competitive Landscape and Opportunities for Adaptation, January 2005). The industry landscape must be regularly re-evaluated to remain aware of the impacts these changes have on the value proposition you intend to deliver.

**Your Value Proposition: The Industry**

Some auto financing companies and banks are leaders; others are followers. Some are open and share within the industry; others hold everything close to their vests. Some seek to improve the industry as a whole; others wait for the improvements to become standard and then adopt those standards. Some seek partnerships with other industry players; others prefer to make it on their own. And, of course, many fall in between each of these extremes.

While neither viewpoint is “right” or “correct”, the decisions you make can make your organization more or less visible in the industry. Your value proposition may be impacted by your industry role due largely to the perceptions this role creates in the minds of your dealers, customers, partners and competitors. It is important that you consider the messages your organization sends not only through its direct actions with dealers and customers but by the indirect messages others receive through the industry. For example, if you belong to and participate in a trade association; your support on key industry issues can be amplified in the legislative and regulatory arenas.
Or, a partnership with another industry player to develop a new product may demonstrate flexibility and focused customer orientation. This impression would be an indirect result of your actions stemming from your openness and your company’s desire to select the best interests of your customers.

The impressions your dealers, customers, partners and competitors take away from your actions are powerful and are likely to be quite visible. Despite your focus on service orientation and partnership through your communications, policies and attitudes, the actions you take outside of your daily business activities can also have strong impacts and can be remembered for many years. Consider your industry actions as part of your vision and mission to be certain they support who you are and who you intend to become as an organization.

In this way, your value proposition to the industry becomes an important component of your value proposition to your dealers, customers, parents, partners and shareholders.

**Conclusion**

Many factors play a role in the value proposition review process. The advantages this process provides you include the potential for greater market competitiveness and presence in the dealers’ minds as well as improved customer satisfaction. Understanding this value in an increasingly competitive environment will bode well for those who develop and implement an effective evaluation structure. Continuous improvement through the value proposition review process should lead to continued success.
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